

## Impact of ESG Strategy on Investment Management and Asset Management: A Case Study on Northern Trust

**Executive Summary:** Environmental, Social, and Governance (ESG) factors have significantly influenced the investment landscape in recent years. For investment management and asset management companies, including Northern Trust, the incorporation of ESG criteria can drive business decisions, shape investment portfolios, and influence stakeholder relations. This document delves into the impact of ESG strategies on these institutions.

### 1. Introduction:

- **ESG Strategy:** A set of investment criteria that consider environmental, social, and governance factors alongside financial factors in the investment decision-making process.
- **Northern Trust:** An international investment management and asset management company that has integrated ESG strategies into its products and services.

### 2. Direct Impacts of ESG Strategy:

- **2.1 Portfolio Construction and Management:**
  - Enhanced risk management through the identification of potential ESG risks that can affect an asset's value.
  - Greater opportunities for long-term returns by investing in sustainable and responsible businesses.
  - Diversification by including ESG-focused assets, which might behave differently from conventional assets.
- **2.2 Client Attraction and Retention:**
  - Growing demand from institutional investors and high-net-worth individuals for ESG-centric portfolios.
  - Ability to offer specialized products, such as ESG-focused funds, attracting a broader clientele.
- **2.3 Regulatory and Reporting Standards:**
  - Compliance with evolving regulatory standards that emphasize ESG reporting and transparency.
  - Enhanced disclosure practices, providing stakeholders with comprehensive information on ESG performance and strategies.

### 3. Indirect Impacts of ESG Strategy:

- **3.1 Reputation and Branding:**

- Enhancing the company's brand image as a responsible and forward-looking institution.
- Building trust with clients, shareholders, and the broader public by showcasing a commitment to sustainable investing.

- **3.2 Competitive Advantage:**

- Differentiating from competitors by offering unique ESG products and services.
- Staying ahead of market trends and anticipating future shifts in investor preferences.

- **3.3 Stakeholder Engagement:**

- Improved relations with stakeholders, including clients, shareholders, employees, and regulators.
- Engaging in dialogues and collaborations with entities such as NGOs and community organizations, fostering a sense of shared purpose.

### 4. Case Study: Northern Trust's ESG Integration:

- **4.1 ESG Products and Services:**

- Northern Trust offers a range of ESG-themed investment products catering to different client needs.
- Utilization of proprietary ESG scoring systems and analytics to assess and rank potential investments.

- **4.2 Stakeholder Engagement:**

- Northern Trust actively collaborates with stakeholders, collecting feedback and ensuring its ESG strategy aligns with broader societal goals.
- The company's commitment to ESG is evident in its public communications, reports, and thought leadership pieces.

- **4.3 Business Outcomes:**

- Enhanced portfolio performance by identifying assets with strong ESG credentials.
- Growth in assets under management (AUM) in the ESG segment, indicating robust client demand.

**5. Conclusion:** ESG strategies have reshaped the landscape of investment and asset management, driving companies like Northern Trust to innovate, adapt, and align with broader societal values. The integration of ESG principles can lead to direct benefits like

portfolio optimization and client growth, as well as indirect benefits like enhanced reputation and stakeholder engagement.

By understanding and actively incorporating ESG strategies, investment and asset management companies position themselves for sustainable growth and long-term success in a rapidly evolving financial landscape.

## Northern Trust's ESG Inquiry Framework for Companies

**Executive Summary:** Northern Trust actively engages with companies to assess their adherence to and integration of Environmental, Social, and Governance (ESG) principles. This document provides an outline of the typical questions Northern Trust might pose to these companies regarding their ESG strategies, offering insight into the depth and focus of their ESG evaluations.

### 1. Introduction:

- **Purpose:** To understand the alignment, commitment, and effectiveness of a company's ESG strategy.
- **Context:** As ESG considerations become essential drivers of investment decisions, Northern Trust seeks clarity on how companies approach these factors.

### 2. Environmental Questions (E):

- **2.1 Climate Change and Carbon Emissions:**
  - What is your company's strategy for mitigating climate change risks?
  - How do you monitor and report your carbon footprint?
- **2.2 Resource Management:**
  - How does your company aim to reduce waste and promote recycling?
  - Are there strategies in place for sustainable water usage and conservation?
- **2.3 Biodiversity and Land Use:**
  - How does your company's operations impact local biodiversity?
  - Are there efforts in place to minimize deforestation and promote sustainable land use?

### 3. Social Questions (S):

- **3.1 Employee Relations:**

- What policies are in place to ensure diversity, equity, and inclusion in the workplace?
- How do you ensure worker safety and well-being, especially in high-risk environments?
- **3.2 Community Engagement:**
  - How does your company engage with and contribute to local communities?
  - Are there initiatives in place to support community development or philanthropy?
- **3.3 Product Responsibility:**
  - How does your company ensure the safety and reliability of its products/services?
  - Are there measures in place to address customer complaints and feedback?

#### 4. Governance Questions (G):

- **4.1 Board Structure and Composition:**
  - How does the company ensure board diversity and independence?
  - What is the board's role in overseeing the company's ESG strategy?
- **4.2 Ethical Conduct and Compliance:**
  - What mechanisms are in place to prevent bribery, corruption, and other unethical behaviors?
  - How does the company ensure compliance with local and international regulations?
- **4.3 Shareholder Rights and Engagement:**
  - How does the company engage with shareholders on ESG-related concerns?
  - Are there mechanisms for shareholders to voice concerns and influence company strategy?

#### 5. Implementation and Monitoring:

- How often does your company review its ESG strategy?
- What key performance indicators (KPIs) are utilized to track ESG progress?
- Are there third-party audits or verifications of your ESG disclosures?

**6. Conclusion:** Northern Trust's comprehensive line of inquiry provides a clear indication of its commitment to understanding and evaluating a company's ESG performance. Companies are expected to exhibit transparency, foresight, and effective

execution of their ESG strategies. Through these questions, Northern Trust ensures that its investment decisions align with sustainability and responsible business practices, reflecting the evolving demands of modern investors.